Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Matthews	Analyst:	Darrine Distefano	Bill Number:	AB 439
Related Bills:	See Legislative History	Telephone:	845-6458	Introduced Date:	February 14, 2003
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: EZs/Increase Expansion Area to 25%

SUMMARY

This bill would increase the percentage rate for expanding the boundaries of an existing enterprise zone (EZ).

PURPOSE OF THE BILL

It appears the purpose of this bill is to include businesses located just outside of the current EZ boundaries.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative on and after January 1, 2004.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides special tax incentives for empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology, Trade, and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs designated before 1990 that meet certain criteria may be extended to 20 years), and TTCA has designated 39 of the 42 EZs authorized under existing law. When an EZ expires, TTCA is authorized to designate another in its place to maintain a total of 42 EZs. TTCA may approve the geographic expansion of EZs up to 15% in size and, for certain small EZs, up to 20% in size.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, special net operating loss treatment, and a tax credit for employees working in an EZ.

Board Position:			Department Director	Date
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<u>THIS BILL</u>

This bill would increase the maximum percentage rate that TTCA may use to expand the geographic boundaries of any existing EZ from 15% to 25%.

<u>IMPLEMENTATION CONSIDERATIONS</u>

Implementing this bill would not significantly impact the department's programs and operations.

<u>TECHNICAL CONSIDERATIONS</u>

In order to maintain internal consistency, the bill should be amended to revise the percentage amount (page 2, line 38) from "15" to "25."

LEGISLATIVE HISTORY

AB 592 (Ridley-Thomas, 2003/2004) and AB 2977 (Committee on Jobs, Economic Development, and the Economy, 2001/2002) would allow local governments to apply to reconfigure the geographic boundaries of an EZ. AB 592 is currently in the Committee on Jobs, Economic Development, and the Economy. AB 2977 failed to pass out of the Assembly Appropriations Committee.

AB 983 (Briggs 2001/2002) would have allowed the City Council of the City of Fresno to reconfigure the geographic boundaries of an existing EZ. AB 983 failed to pass out of the Senate Revenue and Taxation Committee.

AB 51 (Briggs, 1999/2000) would have allowed the governing body of a city, county, or city and county to reconfigure the geographic boundaries of an existing EZ. AB 51 failed to pass out of the Senate Appropriations Committee.

SB 84 (Costa and Poochigian, Stats. 1999, Ch. 137) modified the rules regarding expansion of EZs and allowed the EZs located in Fresno or Kern Counties to expand into adjacent unincorporated areas.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. No information was available indicating whether any of these states allow the boundaries of their economic development areas to be expanded as proposed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue Impact ($ Millions)			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Loss	-6.5	-16.0	-29.0

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses for reconfigured EZs under the Personal Income and the Corporation tax laws would largely depend on the additional amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of businesses claiming these tax benefits.

This bill would result in additional revenue losses by allowing new businesses to claim EZ tax credits and deductions. It was assumed that most EZs would reconfigure their geographic boundaries by 25% to include additional businesses.

Currently, 42 EZs have been authorized, but only 39 have been designated. It is estimated that under current law, the 2003-04 revenue loss for existing EZs is $150 million, or around $3.8 million per EZ. It is assumed that the revenue loss for each expanded EZ under this bill would be on average, $500,000 in the first year, $750,000 in the second year, and $1 million by the third year. It was assumed that one-third of the EZs (or 13 zones) would be prepared to reconfigure in the first year ($500,000 times 13 equals $6.5 million). In the second year, the first 13 expanded EZs would have increased their impact ($750,000 times 13 equals $9.7 million), and a second group of 13 would have begun using their credits ($6.5 million) for a total of $16 million. In the third year, the first 13 would be at full impact ($1 million times 13 equals 13 million), the second group of 13 would have increase their impact ($750,000 times 13 equals 9.7 million), and the last 13 would have begun to use their credits (6.5 million). Therefore, the full impact of this bill would occur in the third fiscal year because all 39 zones would be using the credits (13 million plus 9.7 million plus 6.5 million equals 29 million).

LEGISLATIVE STAFF CONTACT

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